

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6901

BILL NUMBER: SB 410

NOTE PREPARED: Jan 3, 2004

BILL AMENDED:

SUBJECT: Property tax deductions.

FIRST AUTHOR: Sen. Lanane

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: ☒ GENERAL
☒ DEDICATED
☐ FEDERAL

IMPACT: State & Local

STATE IMPACT	FY 2004	FY 2005	FY 2006
State Revenues	(54,000)	(108,000)	(108,000)
State Expenditures	(2,800,000)	(8,500,000)	(8,500,000)
Net Increase (Decrease)	2,746,000	8,392,000	8,392,000

Summary of Legislation: This bill increases certain property tax deduction limits by 108%. It applies to the following deductions: mortgage; elderly; blind or disabled; wartime service disabled; disabled veteran; WWI veteran; surviving spouse of a WWI veteran; residential property rehabilitation; historic property rehabilitation; and residentially distressed area property rehabilitation.

Effective Date: Upon passage.

Explanation of State Expenditures: The increased deductions in this proposal would cause a reduction in some homesteaders' property tax bills which would result in a savings of homestead credit expenditures. **The reduction is estimated at \$2.8 M in FY 2004 and \$8.5 M per year thereafter.**

Homestead credits are paid from the Property Tax Replacement Fund which is annually supplemented by the state General Fund. Any savings of homestead credit expenditures would ultimately benefit the state General Fund.

Explanation of State Revenues: The state levies a small tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds. The total revenue reduction under this proposal is estimated at \$54,000 in FY 2004 and \$108,000 each year thereafter.

Explanation of Local Expenditures:

Explanation of Local Revenues: Under current law, the mortgage deduction equals \$3,000 AV. The property tax deductions for the aged, blind/disabled, and 100% disabled veterans are equal to \$6,000 AV. The elderly deduction is further limited to ½ of assessed value. The WWI veterans and surviving spouse deductions are currently set at \$9,000 AV. The wartime service-connected disabled veterans' deduction equals \$12,000 AV, and the 100% disabled veteran deduction equals \$6,000 AV. This bill would increase all of these deductions by 108%.

For taxes paid in 2002, the statewide total of all of these deductions was \$4.175 B AV. The increased deduction amounts would result in additional deductions estimated at \$4.5 B AV. **This would cause an estimated net property tax shift of about \$87 M in CY 2004, \$89 M in CY 2005, and \$87 M in CY 2006.** These amounts would be shifted from those taxpayers who qualify for the deductions to all property owners in the form of a higher tax rate. Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

The residential property rehabilitation deduction equals up to \$9,000 AV for five years. The historic property rehabilitation deduction equals up to \$300,000 AV for five years. The residentially distressed area property rehabilitation deduction equals up to \$96,000 AV. This bill would also increase all of these deductions by 108% except for the \$300,000 AV maximum deduction for historic property. In addition, the bill would increase the maximum qualifying valuation for the residential property rehabilitation deduction by 108%. The value of these deductions is commingled with real property abatements on the auditor's abstract, making it impossible to quantify the current deductions. The total of all real property abatements plus rehabilitation deductions in 2002 was \$2.0 B AV. Real property abatements most likely make up the overwhelming majority of this aggregate number, leaving a smaller amount representing rehabilitation deductions. The increase for these deductions is not considered in the above shift estimates.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: County Auditors.

Information Sources: Local Government Database.

Fiscal Analyst: Bob Sigalow, 317-232-9859.